M121

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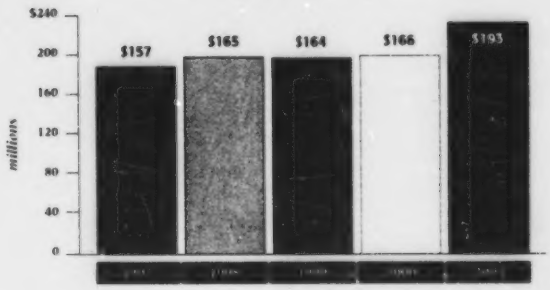
SGI CANADA 2001 Summary

Premiums written in 2001 experienced a major growth of $27.2 million over 2000 to $192.7 million. The acquisition of the subsidiaries in 2001 contributed significantly to the growth in premiums written.

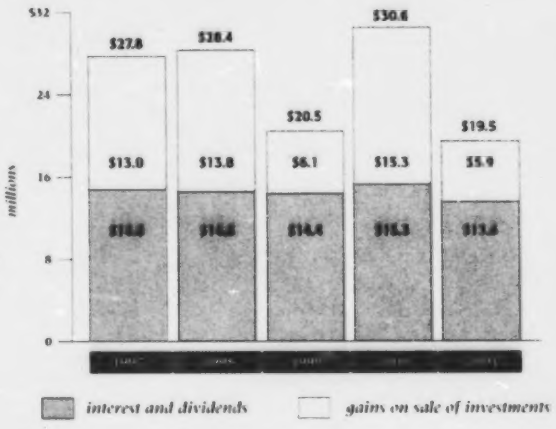
SGI CANADA's investment earnings were significantly lower compared to 2000 when we experienced our largest returns ever. Consolidated investment earnings in 2001 were $19.5 million compared to $30.6 million in 2000.

Through expansion into other Canadian provinces in 2001, SGI CANADA derived 15% of its consolidated premium revenue from outside Saskatchewan, compared to only 4% in the previous year. Expansion is a part of SGI CANADA's long-term strategy to grow business, create and protect jobs in Saskatchewan and spread risk outside the province.

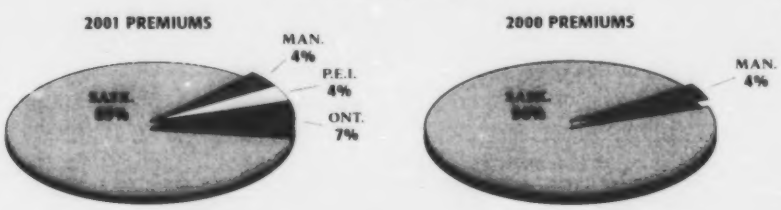
PREMIUMS WRITTEN



INVESTMENT EARNINGS



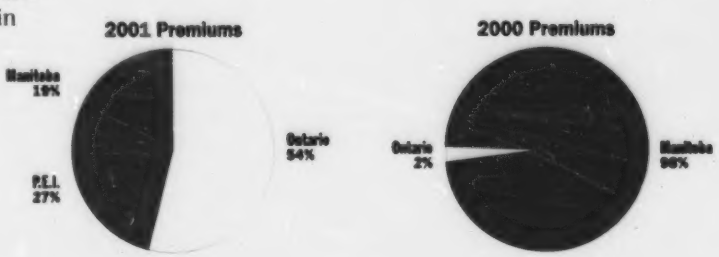
PREMIUM BREAKDOWN



SCISL 2001 Summary

SCISL was formed in 1993 to spread SGI CANADA's geographic risk outside Saskatchewan, grow the revenue base and protect and create jobs in the province. Aquisition of subsidiaries in Ontario and Prince Edward Island in 2001 has significantly assisted in spreading risk over a wider geographical area thereby reducing the effects of a major catastrophe.

Premiums by Province



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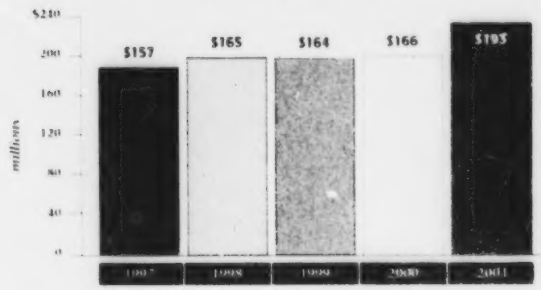
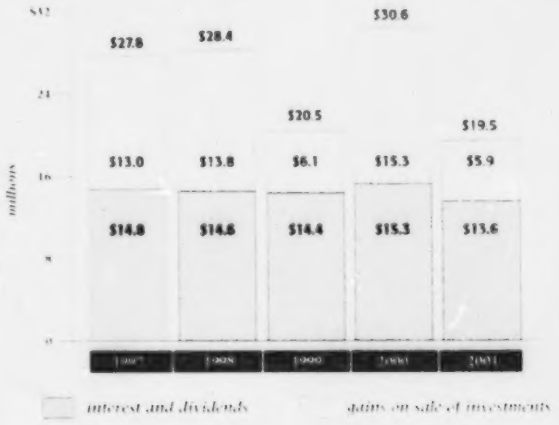


INVESTMENT EARNINGS



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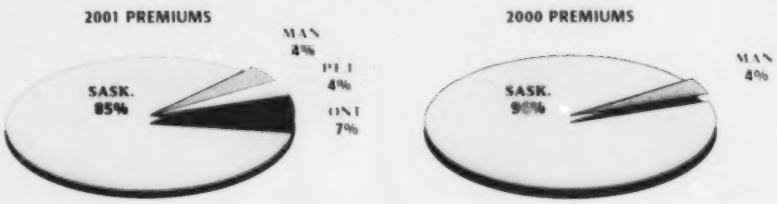

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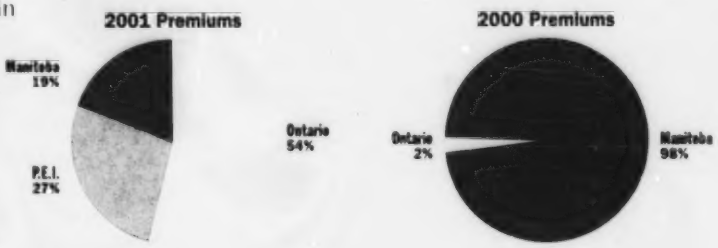
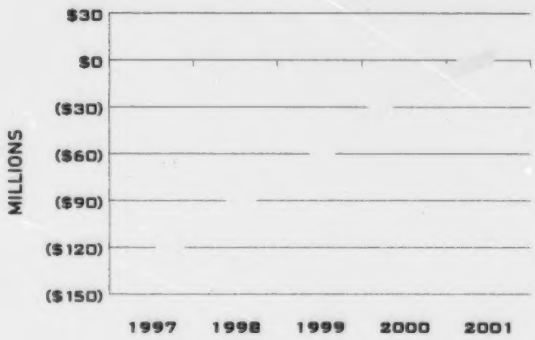


Auto Fund 2001 Summary

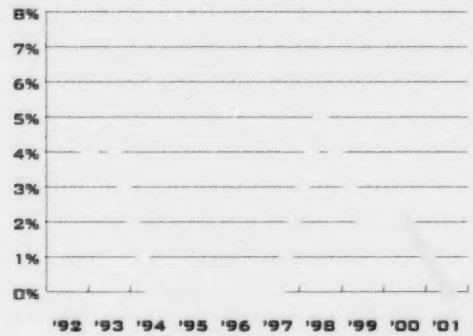
In 2001, a major milestone was accomplished. By realizing an $18.8 million surplus, the deficit in the Rate Stabilization Reserve, which grew to as high as $127.9 million in 1997, was eliminated. The RSR was returned to a surplus position of $2 million for the first time since 1992.

RATE STABILIZATION RESERVE (DEFICIT)



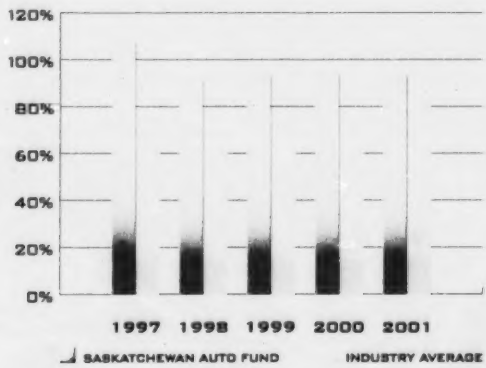
The Auto Fund was able to eliminate the deficit in the RSR while meeting its goal of maintaining among the lowest auto insurance rates in Canada. Since 1994, there have been rate increases in only three years, 5% in 1998, 2% in 1999 and 2% in 2000. In 1998, the deductible was also increased from $500 to $700. This is a significant accomplishment, given that the deficit reached a high of almost $128 million in 1997.

HISTORY OF RATE INCREASES



SGI has a long-standing tradition of low administration costs. Compared to the industry as a whole, SGI's administration costs are significantly lower. The Auto Fund operates on a break-even basis over time, using the majority of premiums collected to pay claim costs. On average over the last five years, the Auto Fund has returned 96 cents of each premium dollar to customers, compared to the private industry average of 77 cents.

CLAIMS DOLLARS RETURNED TO CUSTOMERS



annual report

2001

january february | march april may | june july | august september | october | november | december

achievements

OUR VISION:

As a Saskatchewan based insurance company
we will set the industry standard
for being highly valued by our customers.

OUR VALUES:

INTEGRITY:

conducting ourselves with honesty, trust and fairness

CARING:

acting with empathy, courtesy and respect

iNNOVATION:

implementing creative solutions to achieve our vision

Through expansion into other Canadian provinces in 2001, SGI CANADA derived 15% of its premium revenue from outside Saskatchewan, compared to only 4% in the previous year. Expansion is a part of SGI CANADA's long-term strategy to grow business, create and protect jobs in Saskatchewan and spread risk outside the province.

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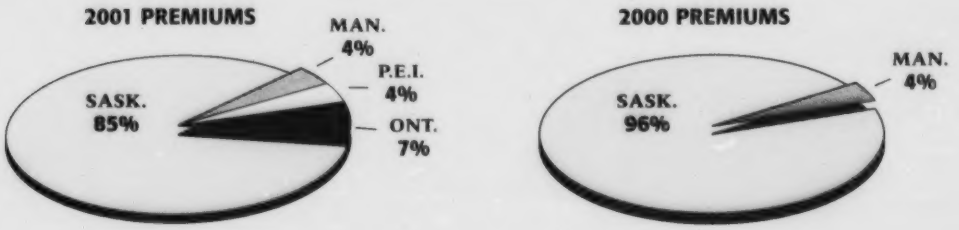

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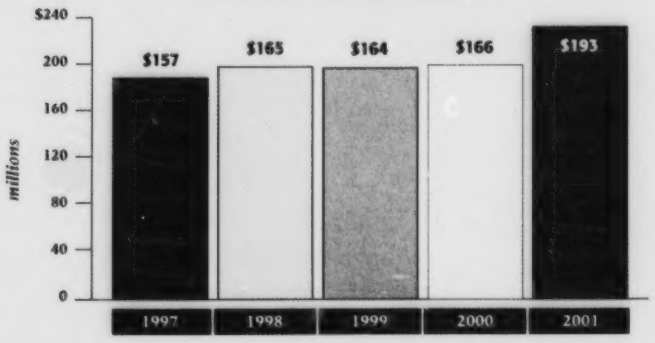
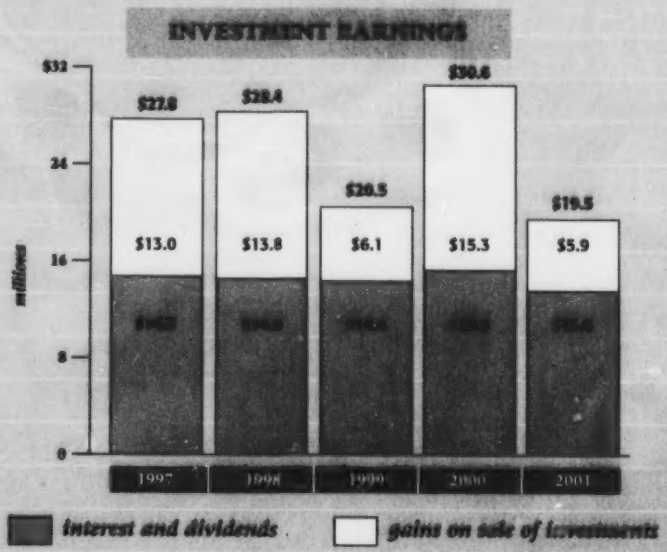
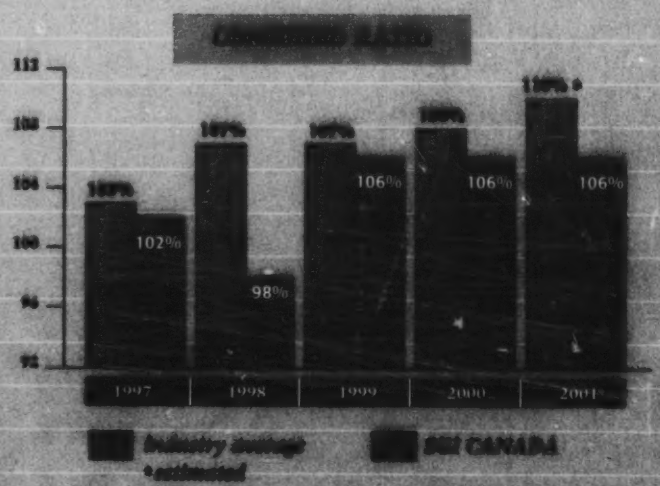


SGI CANADA experienced an average return on investments, with investment earnings significantly lower as compared to 2000 when we experienced our largest returns ever. Consolidated investment earnings in 2001 were $19.5 million compared to $30.6 million in 2000.



SGI CANADA had a combined ratio of 106% in 2001, the same as 2000. A combined ratio of less than 100% results in an underwriting profit. Again in 2001, SGI CANADA out-performed the industry as a whole.



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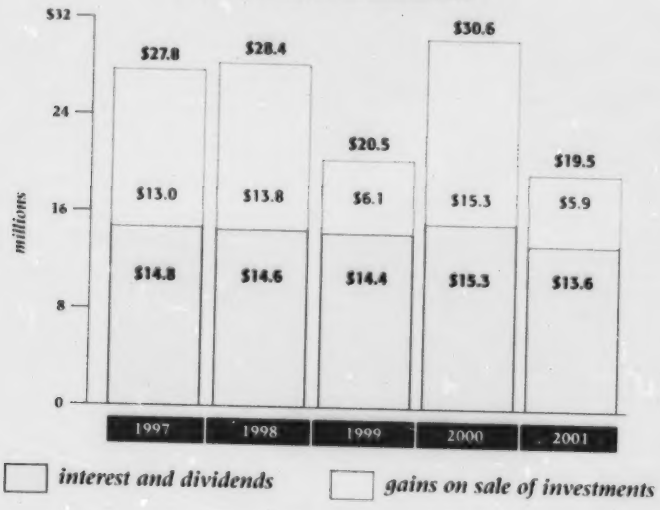

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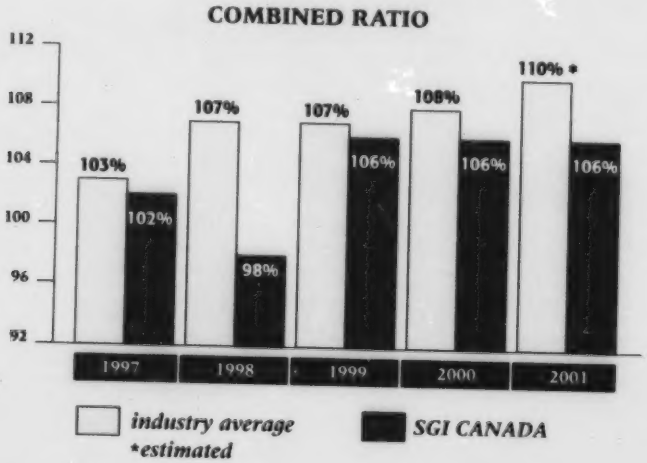
COMBINED RATIO



LETTER OF TRANSMITTAL

Regina, Saskatchewan

March, 2002

To Her Honour,
The Honourable Lynda Haverstock
Lieutenant Governor of the Province of Saskatchewan

Your Honour:

I have the honour to submit herewith the annual report of Saskatchewan Government Insurance for the year ended December 31, 2001, including the financial statements in the form required by the Treasury Board and in accordance with the Saskatchewan Government Insurance Act.

I have the Honour to be, Madam,

Your obedient Servant,

Maynard Sonntag

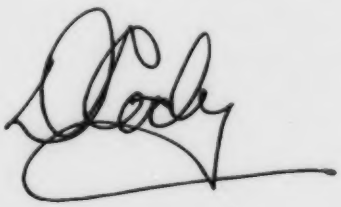
Honourable Maynard Sonntag
Minister Responsible for Crown Investments Corporation

CHAIR'S LETTER

I would like to congratulate SGI CANADA staff and brokers for their hard work this past year. Because of their continued support and loyalty to the Corporation, we achieved our 16th consecutive year of profitability. We also experienced an unprecedented year of expansion through our subsidiary company, SGI CANADA Insurance Services Ltd. (SCISL).

I'd like to thank members of our Board of Directors for their guidance in serving this corporation. Their direction and input allow SGI CANADA to make sound investments that contribute to our long-term strategy to increase our book of business, spread risk outside the province and create and protect jobs in Saskatchewan.

Thanks again to staff, brokers and our Board of Directors for making 2001 another successful year for SGI CANADA.



Donald W. Cody
Chair

VICE PRESIDENTS & ASSISTANT VICE PRESIDENTS

Vice Presidents

Margaret Anderson
Systems

Cheryl Barber
Human Resources

Earl Cameron
Claims

Alan Cockman
Auto Fund

John Dobie
Finance

Randy Heise
Underwriting

Assistant Vice Presidents

Doug Campbell
Claims

Anna Lapierre
Auto Fund

Ken Lerner
Claims

Bob Lundy
Claims

Maureen MacCuish
Communications

Gerry Marsden
Underwriting

Bernadette McIntyre
Auto Fund

Arun Patel
Salvage

Jim Roberts
Underwriting

Don Thompson
Finance

Dwain Wells
Systems

Lorne Whippler
Underwriting

Sherry Wolf
Claims

BOARD OF DIRECTORS

standing (left to right): DOUG RICHARDSON – Lawyer, Saskatoon, SK
NANCY E. HOPKINS – Lawyer, Saskatoon, SK
J. WALTER BARDUA – Vice-Chair, Retired Insurance Professional, Nanaimo, BC
DALE BLOOM – Corporate Secretary, Crown Investments Corporation, Regina, SK
ROBERT FENWICK – Retired Insurance Professional, Dorintosh, SK
JOAN F. D. BALDWIN – Doctor, Regina, SK
JIM MILLS – Mayor of Elrose, SK

seated (left to right): LARRY FOGG – President and CEO of SGI, Regina, SK
DONALD W. CODY – Chair, Mayor of Prince Albert, SK

missing: JOAN R. BELLEGARDE – Executive Director, File Hills Qu'Appelle Tribal Council, Fort Qu'Appelle, SK
W.J.A. (BILL) HEIDT – President, TGS Properties Ltd., Calgary, AB

PRESIDENT'S MESSAGE

SGI CANADA staff and brokers can take pride in another successful year. We celebrated our 16th consecutive year of profitability and we made progress on many fronts in the last year.

In 2001, SGI CANADA earned a net profit of $10.2 million, somewhat less than what we earned in previous years. Investment earnings were below average because of declining rates and lower stock prices. A return to more favourable market conditions should mean increased earnings in 2002.

Premiums written were $192.7 million, with claim and administrative costs totalling $198.5 million, both of which are significantly higher than last year's results – primarily due to the acquisition of two subsidiaries in 2001. Underwriting losses were $10.5 million. However, underwriting results should improve in the near future with a continuation of our underwriting guidelines and rate increases.

It's no secret that SGI CANADA relies on a system of independent insurance brokers to bring our products to Saskatchewan customers. We demonstrate our commitment to brokers by providing them with ongoing support and the latest tools to help them to do business in an efficient and hassle-free manner. In addition to adding new features to our broker extranet, SGI CANADA has expanded Automatic Call Distribution and continued with our product-specific online training for brokers.

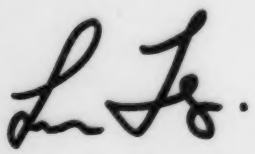
In 2001, SGI CANADA maintained its strong presence in Saskatchewan communities by supporting a wide variety of non-profit organizations, events and activities. Our commitment to Saskatchewan stretches beyond our business partners to the communities in which they live. We sponsor and participate in a number of community activities and projects across the province. This includes projects that were established in previous years, like the SGI CANADA Charity Classic and the annual smoke alarm campaign, and new projects, like the McNab Park youth centre.

SGI CANADA has also continued to extend its presence beyond Saskatchewan's borders to other Canadian provinces. Through our subsidiary company, SGI CANADA Insurance Services Ltd. (SCISL), we purchased a 75% share in the Insurance Company of Prince Edward Island (ICPEI) and took complete ownership of Coachman Insurance in Ontario. These investments meet three of SCISL's primary goals: to spread risk, generate increased profits and create and protect jobs in Saskatchewan.

SGI CANADA continues to be regarded in the industry as a leader in offering innovative products, outstanding customer service and as a great place to work.

I am very grateful for the support of our policyholders, independent brokers, shareholders and our employees across the province. With their continued support, we will be able to achieve these goals and our ultimate goal – to increase value for our customers.

There were many moments at SGI CANADA throughout 2001 that are not only worth remembering, but also worth sharing. Take a guided tour through 2001 at SGI CANADA as we share some of our memorable moments through our timeline.



Larry Fogg
President

2001 IN REVIEW

Looking back on the last year, SGI CANADA staff celebrated many achievements and conquered many challenges. Although we marked our 16th consecutive year of profitability with a net profit of $10.2 million, it was $11.5 million less than 2000.

The insurance industry has come through a period where rates were reduced as insurers competed for market share. Insurers relied on very good investment income results to compensate for unsatisfactory underwriting results caused by a highly competitive market cycle.

SGI CANADA's decline in net profit from 2000 was primarily due to reduced investment income, which was experienced by insurance companies worldwide. SGI CANADA, like the industry as a whole, also showed an underwriting loss. The Corporation's underwriting loss of $10.5 million is very near to that of 2000.

Premiums written increased significantly over 2000, bringing in $192.7 million, while claim and administrative costs were $198.5 million.

The year ahead looks encouraging as we return to a more favourable market cycle.

CUSTOMER SERVICE

If you are looking for world-class service, look no further. SGI CANADA is renowned for its approach to customer service. For 56 years, SGI has maintained an outstanding reputation in the insurance industry for the way we treat customers during the claims process. We have built our reputation on the belief that excellent customer service sets us apart from the competition.

Over the past few years, SGI CANADA staff have been working hard to meet increasing customer expectations, with specialized training for all front-line staff, customer service targets in all claims handling areas and 24-hour emergency claims service.

SGI CANADA's claims service consistently earns us superior ratings from our customers. Our most recent survey shows that we're at 94% for customer satisfaction when processing general claims. We are committed to maintaining this level of customer satisfaction by providing more service training to staff, ensuring staff apply this training and tracking the results through customer satisfaction surveys. So far, all SGI CANADA staff has completed phase one of specialized customer service training, and most staff have completed phase two.

Customers benefit from innovative products and high-quality service from SGI CANADA employees. A hail storm on Aug. 7 caused heavy damage to vehicles and property at Foam Lake. SGI CANADA was on the scene Aug. 10 in its new "mobile claims office," made from a motorhome that was converted to accommodate computer workstations and wireless technology that links to our systems network.

A crew of appraisers and adjusters loaded up the motorhome and headed for Foam Lake. The local hockey rink was converted into a temporary "claims centre" and 104 claimants were booked with appointments to come in with their damaged vehicles.

The hail storm at Foam Lake was the first time the mobile office had been used for actual production work at a remote site – and by all accounts everything ran very smoothly. The mobile claims office is yet another way SGI CANADA is bringing superior service to people in Saskatchewan – wherever they live.

"The mobile claims office greatly enhances our presence in a community after a storm and allows us to process claims exactly as if we were at a Claims Centre. The motorhome is staffed with adjusters able to process claims, confirm coverage and issue cheques at the site of an emergency," said Len Nargang, Manager. "Residents of Foam Lake were grateful to have such a quick response from SGI CANADA. We wouldn't have been able to address these claims as quickly as we did had we not had our mobile claims office. It really makes a difference."

Among SGI staff members from Regina General Claims Centre who travelled to Foam Lake are (L to R): Conrad Melnychuk, Appraiser; Len Nargang, Manager; Blair Wilchynski, Clerk and Ray Unger, Appraiser.

Staff from Yorkton Claims Centre also went to Foam Lake, but are not pictured here. They are Kevin Cunningham, Appraiser; Curtis Grunert, Adjuster 2; Les Hague, Adjuster 2; Shelley Henderson, Adjuster 2; Ross Kobitz, Appraiser; Frank Kormos, Adjuster 2; James Prokopiuk, Adjuster 2; Harvey Snidanko, Adjuster 2; John Sveinbjornson, Adjuster 2; and, Gerry Turner, Adjuster 2.

CUSTOMER SERVICE

Providing excellent service and superior products to our customers at affordable rates is a top priority at SGI CANADA. We are always evaluating our products, resulting in improvements to better meet customer needs and changes in the market.

At SGI CANADA, we strive to provide the highest value at affordable rates, without sacrificing quality or efficiency.

We continuously review our products and make enhancements. The changes are often based on feedback from our brokers received through our Product Reps, underwriting staff and forums such as the President's Advisory Council.

After evaluating our Personal Lines home products, we introduced several new initiatives for 2001. We have increased deductible discounts by a further 5%. We've also removed the 30% discount cap on our home products. Increased Limits Coverage has been revamped to make it available to more customers.

As for our auto products, the growing frequency and cost of claims continues to be a major concern for Auto Pak. As a result of increased claim costs, we've had to make an increase to Auto Pak rates this year to correct the premium deficiency. As for SGI CANADA Agro products, competition for Agro business is fierce and we have made product changes accordingly.

GROWTH

In 56 years, we have expanded the number of brokers in Saskatchewan doing business with SGI CANADA from one in 1945 to 331 in 2001. Our growth strategy has put SGI CANADA among the most competitive insurance companies in Canada, serving customers in every Saskatchewan community.

Independent brokers are vital to the insurance industry in Saskatchewan. They provide independent advice, giving customers the freedom to choose insurance products to best suit their needs.

SGI CANADA works with a network of independent brokers in Saskatchewan, Manitoba, Ontario and Prince Edward Island that is committed to providing cost-effective and customer-oriented services for consumers in the insurance market.

With the help of our independent brokers, SGI CANADA has grown into a diverse and expanded business, with a strong presence and involvement in community-based initiatives throughout Saskatchewan.

We appreciate the cooperation we've received on many initiatives from the Insurance Brokers' Association of Saskatchewan (IBAS) – a voluntary organization of professional independent insurance brokers dedicated to maintaining superior standards in the province's insurance industry.

SGI CANADA introduces a program to reimburse brokers for charges incurred as a result of accepting debit and credit cards from customers.

june

SCISL

This was an unprecedented year of growth and diversity for SGI CANADA's subsidiary company, SGI CANADA Insurance Services Ltd. (SCISL).

SCISL started off the year by purchasing 75% of the shares in the Insurance Company of Prince Edward Island (ICPEI) in January 2001. In July, SCISL purchased Coachman Insurance Company in Ontario.

These investments are part of SGI CANADA's long-term strategy to create and protect jobs in Saskatchewan. SCISL staff at head office provide support.

In December 2001, we received approval to invest $1 million into three of ICPEI's sister companies. The companies are Charlie Cooke Insurance Agency Ltd. (CCIA), Atlantic Adjusting and Appraisals Ltd. (AAA), and Maritime Finance and Acceptance Corporation (MFAC). The companies, along with ICPEI, are part of the umbrella group of Cooke Insurance. This investment will further strengthen our partnership with ICPEI.

These investments resulted in an increase of more than $20 million in premiums. But an increase in premiums is certainly not the only reason behind these investments. In addition to growing business, these strategic purchases are part of SGI CANADA's long-term strategy to create and protect jobs in Saskatchewan and spread risk outside the province, thereby minimizing the impact of events such as serious storms.

SCISL is already established outside of Saskatchewan borders, as proven by its success in Manitoba. In fact, for the second year in a row, Manitoba brokers ranked SCISL first overall in the brokers' service survey from *Manitoba Broker* magazine, which asks brokers to rate various products and services provided by numerous insurers. SCISL received an overall approval rating of 86%, topping its previous year's rating of 82.5%.

january | february | march | april | may | june | july | august | september | october | november | decem

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In July, SCISL purchases Coachman Insurance Company in Ontario.

july

Investing in companies outside of Saskatchewan contributes to SGI CANADA's long-term strategy to increase our book of business, spread risk outside the province and create and protect jobs in Saskatchewan. Through our recent investments in the Insurance Company of Prince Edward Island (ICPEI) and the Coachman Insurance Company in Ontario, we are keeping jobs in Saskatchewan. Staff at our head office work closely with staff at these brokerages to provide training and ongoing support.

back row: Bert Delgaty, I.T. Analyst, Systems – GIS; Lenora Doucette, Underwriter 2, SCISL; Lorne Achtemichuk, Finance Business Analyst 3, Finance – GIS; seated: Jane Weigel, Underwriting Business Analyst 3, Underwriting Systems and Services; and Bob Fiori, Administrative Analyst, Claims, provide front line underwriting and technical support to meet the needs of ICPEI and its brokers.

COMMITMENT TO COMMUNITY

SGI CANADA is responsible to the communities in which we do business. Through sponsorships, volunteerism and donations-in-kind, SGI CANADA is helping to improve the quality of life for Saskatchewan residents. We have developed partnerships and provided assistance to local groups.

THE MCNAB PARK YOUTH PROJECT

McNab Park is a housing complex located in Saskatoon's North industrial area separated from the rest of Saskatoon by its location. There is a lack of services available to residents, especially children. As a result of this lack of facilities and activities, crimes against property and persons is an ongoing problem for the community.

SGI CANADA partnered with the Saskatoon Police Service and other local area business sponsors to establish the McNab Park Youth Centre in an existing housing unit. The goal of the youth centre is to provide proper supervision and meaningful activity for children in the area. As a result of SGI CANADA's involvement, crime in the area has dropped by more than 30%. This has led to other centres wishing to set up similar projects and other area agencies and businesses becoming involved with the McNab Park Youth Centre.

SGI CANADA is proud to be a part of such a successful initiative.

This past year saw the opening of McNab Park Youth Centre in Saskatoon's North industrial area. SGI CANADA provided $5,000 in operating money, as well as six computers and six smoke alarms. Nearly 600 residents in the area, including 300 children, visit the centre on a regular basis to take advantage of events and programs offered throughout the day. Activities taking place at the centre include GED, crafts, sports, cooking classes and babysitter courses.

The Regina & Region Home Builders' Association (RRHBA) and SGI CANADA partnered again with the Regina Fire Department to install free smoke alarms in high fire risk Regina neighbourhoods throughout October. This ongoing program targets homes in areas with high fire occurrences, alternating between the Core/Ritchie and north-central Regina neighbourhoods. Firefighters check smoke alarms in homes to make sure they work properly and install new lithium battery operated smoke alarms wherever necessary, all free of charge.

COMMITMENT TO COMMUNITY

SMOKE ALARM PROGRAM

SGI CANADA also teamed up again with the Regina & Region Home Builders' Association and the Regina Fire Department to check and install smoke alarms in homes in Regina areas with high fire occurrences. Since the program began in 1998, firefighters have checked the smoke alarms in 1,777 Regina homes, and as a result installed 1,616 smoke alarms. There have been no fire fatalities in these areas in that time.

"This is an excellent proactive approach to preventing injuries and death caused by fire. It minimizes the number of emergency responses, fatalities, severity of injuries and property damage associated with house fires," said Jack Lichtenwald, Fire Chief, Regina Fire Department. "The lithium battery operated smoke alarms that we installed mean a decade of increased fire protection and safety by sounding an early warning in case of fire."

"Safety has always been a priority at SGI CANADA. This program is an excellent vehicle to promote fire safety in the community, and we are proud to be involved," said Larry Fogg, President of SGI CANADA.

IBAS provided four Saskatchewan getaways for a draw as an incentive for parents and caregivers to attend a child restraint clinic. Jon and Jen Fehr's commitment to their daughter's safety compelled them to visit a child restraint clinic in Rosetown in June. While they were there, they entered to win a Saskatchewan getaway and their efforts were rewarded. The Fehrs were presented with a $1,000 travel voucher for a family getaway to Prince Albert National Park.

IBAS Director Peter Mysko (second from left) and SGI CANADA Board Member Jim Mills (back row, centre) presented the voucher to the Fehr family. Also in attendance were (from left to right) Angie Slater, EMT; Laura Sharp, Community Services Coordinator; Alma Dube, Mayor of Rosetown; Mary Pat Fisher, Public Health Nurse and Adrienne Wendt, Interim Emergency Services Coordinator. (seated in front) Jen and Jon Fehr and their daughter, Shayna.

Over the course of five months SGI CANADA and IBAS sponsored and ran over 120 highly successful child restraint clinics in 96 Saskatchewan communities.

COMMITMENT TO COMMUNITY

SGI CANADA continued its partnership with local brokers in the annual child restraint campaign. In 2001, there were 120 child restraint clinics held in 96 different communities throughout the province. Local brokers were involved with more than half of those clinics.

The Insurance Brokers' Association of Saskatchewan (IBAS) was also a big participant in the 2001 child restraint campaign. Everyone who attended a child restraint clinic was entered to win one of four Saskatchewan getaways, which were provided courtesy of IBAS.

The ninth SGI CANADA Charity Classic was a huge success. Around 10,000 curling fans enjoyed the action at the annual curling bonspiel. As well, more than 200 volunteers gave up their Thanksgiving weekend to help out at the event. Thanks to the volunteers, the athletes and curling fans, the Charity Classic raised $41,000 for the Kids Help Phone, an agency dedicated to safeguarding the health and welfare of Saskatchewan youth. The 2001 charitable donation is the highest ever raised at the Charity Classic, topping last year's donation of $32,500.

It is through events and sponsorships like these that SGI CANADA has become more than an insurance company. SGI CANADA not only gives support in the form of sponsorships, but also in the form of participation. SGI CANADA staff and brokers are active members of Saskatchewan's communities, participating in a wide range of community activities and projects in the areas of sports, the arts, culture and health.

TECHNOLOGY

We worked diligently to keep our reputation in 2001 as a technology leader in the insurance industry. We have used the Internet to improve services both inside and outside of the Corporation. We are expanding our intranet, making it the main source of information for SGI staff, with updates occurring on a weekly basis. We are also in the process of developing our Internet site to include everything the average person would want to know about SGI CANADA, from how to file a claim to where you can find your nearest SGI CANADA broker. We anticipate the expanded Web site to be launched in spring 2002. SGI CANADA continues to move forward with technology and automation. The information brokers provide us on automation helps us continue to design programs to meet their specific needs, such as our Broker Interface program. As SGI CANADA continues to grow with technology, we encourage brokers to grow with us.

We are always creating and evaluating new technologies that contribute to SGI CANADA's efficient and superior customer service. Because of the frequency of glass claims and costs associated with processing those claims, SGI CANADA has developed the Automated Glass System (AGS). AGS is a business-to-business Internet solution that allows customers to report a road hazard glass claim directly to a glass or autobody repair shop without having to also report their claim to SGI. A six-week pilot project took place in Swift Current and Saskatoon, and was met with much enthusiasm. Full roll out of the AGS will begin Jan. 1, 2002.

This year, we took advantage of the Internet technology at our fingertips and used it in a variety of our daily business dealings. We expanded the SGI CANADA broker Web site, providing standard questionnaires, forms and applications online for Commercial Lines – General Business, Commercial Auto, Personal Lines – Home, Agro and Auto. These new items on the Web site can be printed and completed, making even the most tedious tasks quicker and easier for brokers.

The Internet continued to prove itself to be an valuable business tool in the area of broker training. In 2001, SGI CANADA provided more online broker training, which was very well received. Training online gives brokers an effective, cost-efficient method to obtain product-specific training right in their own offices.

Kruse Glass and Aluminum Ltd. in Swift Current was one of two glass repair shops in the province which participated in the AGS six-week pilot. Kelli Sather, office manager of the repair shop, says staff and customers appreciate the convenience and efficiency of the system. "Our main goal at the shop is to have our customers come in, do their repairs, quickly process their claims and have them leave completely satisfied. The AGS makes this so simple for us now. It's great!" said Sather.

TECHNOLOGY

We also improved our telephone system in 2001. Many brokers expressed their dissatisfaction with the old phone system in a Brokers' Service survey. In a continued effort to improve customer service to SGI CANADA brokers, the Commercial Lines – General Business and Major Accounts departments have moved to an improved phone system – the Automatic Call Distribution (ACD) system.

Now, brokers have several options available to them. They can call their underwriter directly, and if the underwriter is not available, they can leave a message on voicemail. Alternatively, they can press zero and be transferred to the queue system to speak to another underwriter in the appropriate area, or they can select the queue system from the initial menu to speak to anyone for a general question.

The ACD system is just another example of SGI CANADA's commitment to providing top-quality service to our brokers.

Brokers who have computer systems and use the Internet will find these tools help make their businesses more efficient and provide greater customer satisfaction. We hope to continue this trend of automation in the future as we explore new ways to use technology to enhance service to our brokers.

Two glass repair shops in the province sign on to participate in a six week pilot to test SGI's new Automated Glass System (AGS). The pilot is met with enthusiasm and full rollout is expected Jan. 1, 2002.

LOOKING AT 2002 AND BEYOND

SGI CANADA has been a leading insurer for 56 years, offering affordable, top-quality insurance products and services to the people of Saskatchewan. And not only has the corporation survived – it has thrived.

Through the combination of staff dedicated to developing superior products, a team of brokers committed to providing excellent customer service and the most up-to-date information in the industry, SGI CANADA has remained on top. It is consistency and reliability that keep SGI CANADA on course.

Customers throughout the world have been reminded of the importance of adequate insurance both for their business and personal needs, thus increasing demand for our products and services. There is a clear understanding that there are higher levels of risk and that insurance can help offset some of that risk.

In 2002 and beyond, we will continue to provide top quality products at affordable prices for customers who have a history of purchasing SGI CANADA products and customers who are just realizing now the importance of insurance.

INTRODUCTION

The information in this discussion and analysis should be read in conjunction with SGI CANADA's (the Corporation's) consolidated financial statements and accompanying notes. This report is intended to assist the reader in understanding the financial position and operating results of the Corporation.

CORE BUSINESS

SGI CANADA is a provincially owned Crown corporation operating a property and casualty insurance business. The Corporation was formed over 50 years ago to provide quality affordable insurance products to Saskatchewan residents. Through SGI CANADA and its subsidiaries, it now sells property and casualty insurance products in Saskatchewan, Manitoba, Ontario and Prince Edward Island.

In Saskatchewan, SGI CANADA has a long history of stability and community minded presence throughout the province. This strong history and ongoing commitment to Saskatchewan has helped SGI CANADA maintain a significant share of this market. The products SGI CANADA sells are delivered through a network of over 330 independent brokers located throughout the province. In order to continue delivering insurance products that consumers desire, SGI CANADA works closely with its brokers to obtain input and advice on the changing needs of consumers. With the assistance of the brokers, SGI CANADA continues to take the lead in delivering innovative insurance products to Saskatchewan residents and businesses.

To adequately assess risk, an insurance company relies to a great extent on information retained in its computer system to properly price the product. SGI CANADA maintains an integrated claims and underwriting system which was developed internally. While developing the system internally may have taken longer, the end product is superior and has become one of the Corporation's competitive advantages. Because of the reliance on the system, a team of business users and systems professionals work together on a continual basis upgrading and making enhancements to the system to ensure it remains a competitive advantage for the Corporation. As an example, in 2000 the Corporation implemented a broker extranet system which provides current and easier access to information to the broker, as well as reducing the administrative burden for SGI CANADA. Enhancements were added to the extranet in 2001 and will continue to be added in the future.

Critical to SGI CANADA's success has been its ability to follow a disciplined underwriting approach in order to achieve underwriting profitability. While competitive pressures the last several years have put pressure on SGI CANADA and all insurance companies' underwriting profitability, the Corporation has historically been very successful at underwriting. This success has come from two areas; a large database of information in its underwriting system to properly assess risk, and committed and experienced staff. The Corporation has been successful at retaining its employees, which over the years has been reflected in its superior loss ratio in the Saskatchewan market compared to the insurance industry.

GROWTH AND DIVERSIFICATION

In the early 1990s SGI CANADA formed SGI CANADA Insurance Services Ltd. (SCISL), a subsidiary of SGI CANADA, to sell insurance in other provincial jurisdictions. Growth outside Saskatchewan in other Canadian provinces was sought to spread geographic insurance risk, grow the revenue base and protect and create jobs in the province. Prior to the formation of SCISL, SGI CANADA derived 100% of its revenue from Saskatchewan with a significant share of the market, and there were limited opportunities for growth.

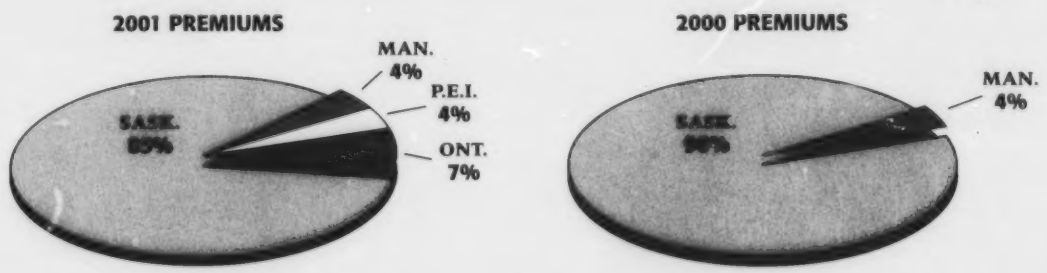
SCISL began operations by obtaining a licence in Manitoba in 1993. Because this market was similar to Saskatchewan, growth was achieved using the same model as SGI CANADA, appointing quality brokers one at a time and following disciplined underwriting practices. The goal was careful controlled growth and developing a strong relationship with local brokers. By the end of 2001, SCISL's direct premium revenue was over $7 million in Manitoba, making it the 12th largest property and casualty insurer in the province.

Because SCISL lacked underwriting experience outside the Prairie provinces, the growth strategy in other provinces was through acquisition. In 2000, SCISL began negotiations to purchase the Insurance Company of Prince Edward Island (ICPEI), which concluded with SCISL becoming 75% owner on Jan. 1, 2001. The other 25% shareholder is from PEI and has extensive experience in this market. ICPEI provides the underwriting expertise while SCISL provides the infrastructure, such as computer systems, reinsurance and accounting. ICPEI currently writes nearly $7 million of primarily auto and personal lines premiums in Prince Edward Island. The company is currently investigating expansion opportunities into other Maritime provinces.

SCISL obtained an insurance licence in Ontario in 1995 but because it did not have experience or a computer system to underwrite Ontario automobile insurance, growth in Ontario was limited. To accelerate growth in this market, on July 1, 2001, SCISL acquired the Coachman Insurance Company of Ontario, which writes over $25 million of Ontario auto insurance. By adding Coachman's premiums to SGI CANADA's consolidated revenue, it immediately decreases the Corporation's concentration of risk in the Saskatchewan market, as well as growing the revenue base. Further growth for SCISL is anticipated in this market as it plans to sell its property insurance in Ontario using Coachman's distribution system.

SGI CANADA's consolidated premium revenue of $192.7 million includes a full year of ICPEI results and six months of Coachman's. In 2001, the component from outside Saskatchewan is 15% compared to only 4% last year. This is expected to be over 20% in 2002 with a full year of Coachman revenue, combined with anticipated growth in these markets.

PREMIUM BREAKDOWN



MEASURING SUCCESS

Financial success at SGI CANADA is measured through the Corporation's ability to provide an above average return on the equity invested by the shareholder. SGI CANADA's target is to have (on average) a return on equity that is 5% higher than the insurance industry average. Because of the knowledge SGI CANADA has of its market, it has been successful at achieving this target.

To be able to deliver this above average return on equity, the Corporation must be able to deliver highly valued service to its customers. SGI CANADA surveys its brokers annually, as well as being a part of an annual Insurance Brokers Association of Saskatchewan survey. These surveys are analyzed to determine areas of strength and weakness and followed up with brokers to ensure we continue to deliver great service to them.

Another critical area of customer service is in the claim handling process. While the activity that created the claim is not a positive situation for a customer, if the claim is handled with professionalism and courtesy it can leave a strong impression with the consumer, creating a satisfied and loyal policyholder. Conversely, if the claim is not handled properly, it can lead to a dissatisfied policyholder who will spread word of the poor experience to others. To ensure the Corporation is maintaining its focus on customer service in the claim handling process, semi-annual surveys are sent to policyholders that have recently had a claim. These surveys are analyzed to determine if any issues exist that can lead to changes in claim handling policies or procedures.

SGI CANADA places an emphasis on the continual education and training of employees. Both technical and customer service training are emphasized at SGI CANADA. Providing these tools to employees leads to highly valued customer service, as well as providing employees with the tools to properly underwrite risks and adjust claims. Training is evaluated on an ongoing basis to ensure it provides employees with enhanced skills required to achieve the Corporation's vision.

OVERVIEW OF 2001

The year 2001 was a significant one for SGI CANADA with the acquisition of two new subsidiaries, ICPEI and Coachman. The 2001 consolidated financial results include a full year of ICPEI results and six months of Coachman.

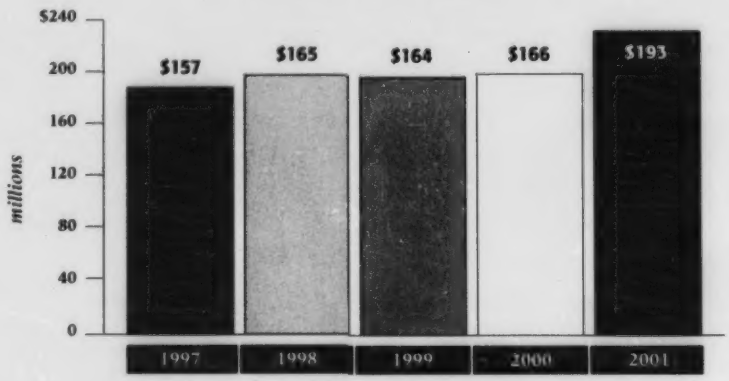
Profitability declined in 2001 to $10.2 million from a prior year net profit of $21.7 million. The earnings decline for SGI CANADA is similar to all insurance companies across Canada and is a result of a decline in investment earnings realized on the sale of investments. The underwriting loss in 2001 was $10.5 million, slightly higher than last year's loss of $9.4 million.

SGI CANADA believes that its GIS computer system is one of its competitive advantages. In 2001, with the assistance of ICPEI staff, a ground-up automobile underwriting component was added to the system.

PREMIUMS WRITTEN

In 2001, premiums written totalled $192.7 million compared to $165.5 million last year. The acquisition of the subsidiaries in 2001 contributed significantly to the $27.2 million growth. Six months of Coachman results provided $13.6 million of this growth. ICPEI contributed $6.8 million, SGI CANADA Saskatchewan premiums grew by $6.1 million and SCISL Manitoba operations increased by $669,000.

PREMIUMS WRITTEN



CLAIMS INCURRED AND PROVISION FOR UNPAID CLAIMS

The Corporation establishes provisions for unpaid claims as they are reported. This provision is adjusted as more information becomes available about the claim. With the assistance of an external actuary, a provision is also established for future development on reported claims and claims that have not yet been reported.

Determining future development on reported claims and unreported claims is based on historical claims experience and other factors such as future inflation expectations, court decisions and economic conditions. The provision for claims that are paid out fairly quickly, such as property claims, is generally easier to determine than claims that take several years to settle, such as liability claims, which can be very difficult to predict. On the current book of business, there was essentially no development in 2001 on prior year claim reserves, compared to a $2.8 million deficiency in 2000, or 2.5% of total claims incurred.

Prior to 1986, the Corporation wrote a book of reinsurance assumed business. Reinsurance assumed is the process of accepting a portion of insurance risks from other insurance companies. While this business has not been written since 1985, some of the business is long term in nature, and the costs are very unpredictable. Therefore, as more information becomes available on these claims, the Corporation has to adjust the reserves. When possible, the Corporation commutes portions of the assumed business, which eliminates all claims exposure. In 2001, there was a $2.5 million reduction in claims incurred associated with this business (2000 – no effect). The provision for unpaid claims relating to this business at the end of 2001 was $12.1 million (2000 – $15.7 million).

Consolidated claims incurred was $127.9 million in 2001, a $16.9 million increase over last year. The increase is due to the acquisition of the subsidiaries. Relative to the premium base, the claims costs are essentially the same as last year.

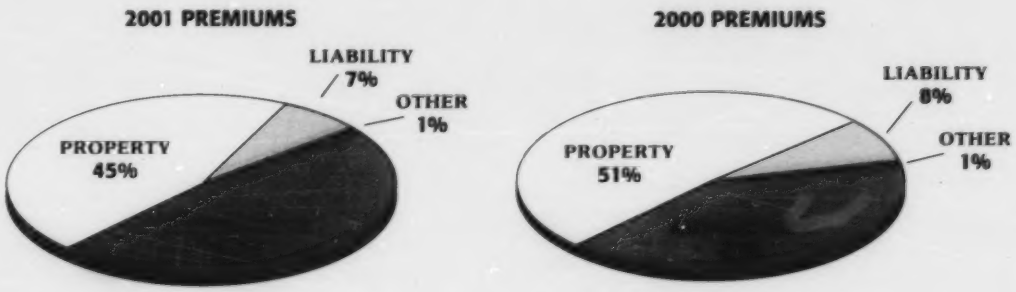
Insurance regulators and the Canadian Institute of Actuaries (CIA) have different standards for discounting claim liabilities to recognize the time value of money. The Corporation follows the standard of insurance regulators, which only allows discounting of certain claim liabilities, while the CIA's standard requires discounting of all claim liabilities. Because of the discrepancy between the two methods, the CIA's policy is to provide a qualification in the actuary's report.

EXPENSES EXCLUDING CLAIMS INCURRED

Expenses totalled $70.6 million in 2001 compared to $63.2 million last year. The majority of the growth is attributable to the acquisition of the subsidiaries which had total expenses of $4.7 million in 2001. In relation to the premium base, the expenses were 37.5% in 2001, which is a decline from 38.3% last year.

The majority of increased premiums are from the subsidiaries which write primarily automobile business. Because this business is not as complex to underwrite and sell, it has a lower expense ratio than property and liability insurance. This has resulted in a lower consolidated expense ratio for SGI CANADA. With a full year of Coachman results included in 2002, it is expected that automobile premium will represent 50% of total premiums, which is similar to the Canadian property and casualty industry total of 53%.

PREMIUM BREAKDOWN



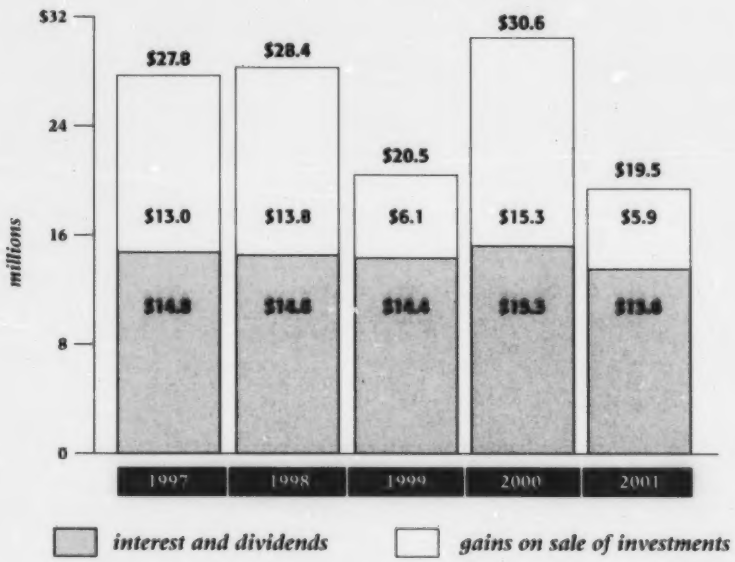
INVESTMENTS

Insurance companies hold funds in reserve for unearned premiums and unpaid claims. These funds, in addition to the company's equity base, form a large pool of assets used for investment purposes. Earnings from the investment portfolio supplement earnings from insurance operations. Because a portion of these funds are held only for short periods, and because of the unpredictability of large cash outflows due to weather, an insurance company must take a more short-term investment approach compared to a pension plan, which invests its funds for longer periods.

The Corporation records only the appreciation in market value of its investments on their sale. This results in unrealized gains in the investment portfolio which are not recorded in the financial statements. This amount at the end of 2001 is $14.6 million, compared to $19.4 million in 2000.

Consolidated investment earnings in 2001 were $19.5 million, compared to $30.6 million last year which was the most ever recorded by SGI CANADA. Gains on the sale of investments (net of writedowns) which can vary significantly from year to year, were $5.9 million, compared to $15.3 million in 2000, a decline of $9.4 million.

INVESTMENT EARNINGS



PERFORMANCE MEASUREMENT RATIOS

Return-on-equity is a measurement of profit earned relative to the equity invested by the shareholders in the Corporation. The pre-tax return on equity in 2001 was 10%, compared to 21% in 2000. The decrease was a result of a decline in investment earnings. The 2001 return of 10% is lower than SGI CANADA's 10-year average return of 19%.

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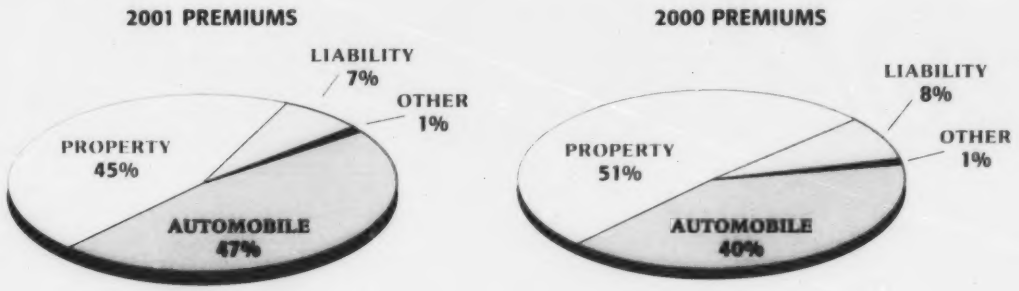

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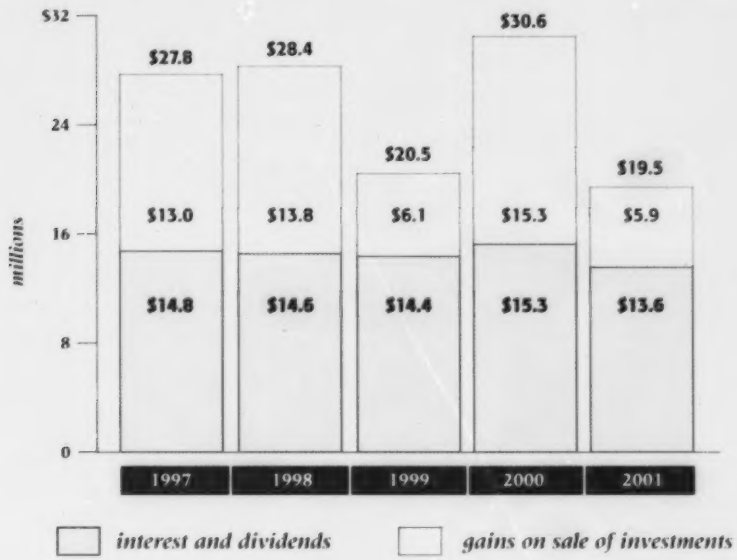
INVESTMENT EARNINGS



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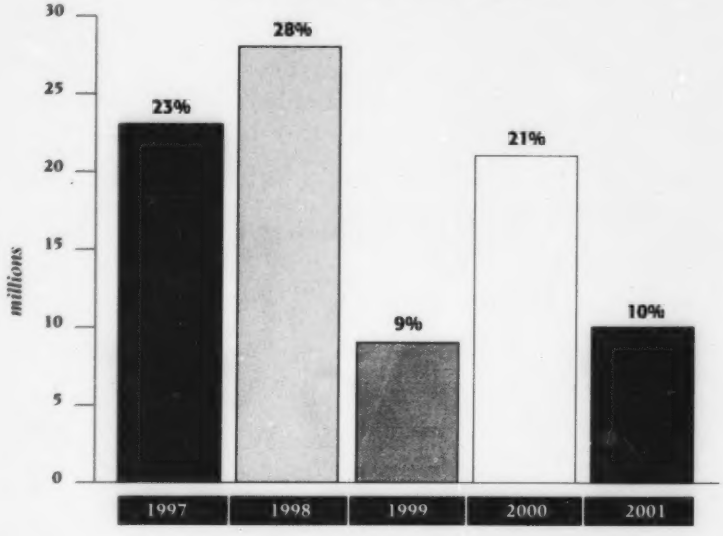
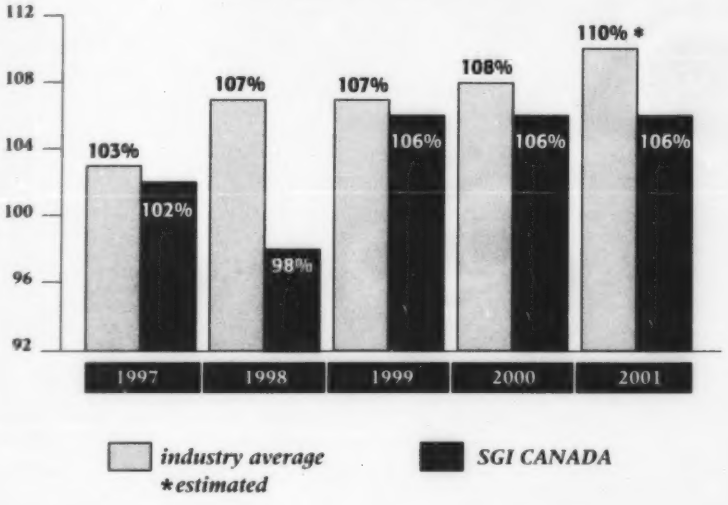
RETURN ON EQUITY (pre-tax)



Loss ratio is an insurance industry measurement expressing claims incurred as a percentage of premiums earned. The loss ratio on current operations increased marginally in 2001 to 68% from 67% in 2000.

The **combined ratio** is a measurement of total expenses (including claims) in relation to premiums earned. Insurance companies attempt to achieve a ratio of less than 100%, which would result in an underwriting profit. The Corporation's 2001 combined ratio is 106%, essentially the same as last year.

COMBINED RATIO



Net risk ratio is an industry measurement, which is the ratio of net premiums written to equity, and gives some indication of a company's financial strength to support the insurance business that it writes. The lower the ratio, the better the insurance company's financial resources can withstand adverse underwriting results. The net risk ratio in 2001 and 2000 was 1.9.

REINSURANCE

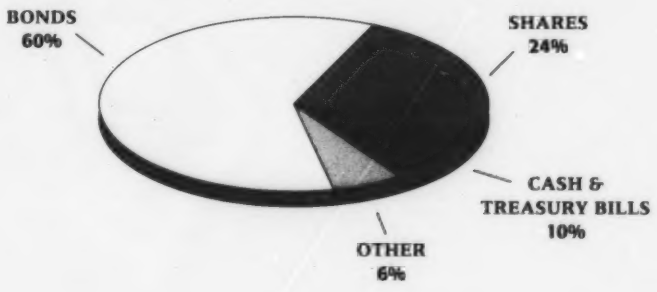
Reinsurance is the process of passing part of a risk or risks from one insurance company to another insurance company (the reinsurer). Two of the key reasons for reinsuring are increasing the insurance company's capacity to write business and providing greater stability by reducing fluctuations in financial results due to large individual losses or catastrophic events.

The Corporation purchases a variety of proportional and excess reinsurance contracts that provide coverage on a per risk or per event basis to limit exposure from large single losses or catastrophic events. Reinsurers are carefully selected with an emphasis on continuity and long-term relationships. Solvency of reinsurers is paramount in this process.

LIQUIDITY

Given the Corporation's reinsurance program to protect against major catastrophes and its liquid investment portfolio, the Corporation is confident there is sufficient cash to meet all financial obligations as they fall due. In 2001, cash inflows from insurance operations provided $16.7 million in cash compared to $15.2 million in 2000. As of Dec. 31, 2001, the Corporation's investment base is $292.4 million, consisting mainly of treasury bills, government and corporate bonds and common shares of Canadian companies.

INVESTMENT PORTFOLIO
as at December 31, 2001



RISK MANAGEMENT

The following issues and risks, among others, should be considered when evaluating the Corporation:

Catastrophe Exposure

Property and casualty insurers are subject to losses arising from catastrophic events. With the Corporation having a significant portion of the Saskatchewan property insurance market, it is susceptible to large losses from major storms in Saskatchewan. To contain this risk, the Corporation purchases catastrophe

reinsurance protection that reduces the potential impact from major losses as a result of catastrophic events. While the Corporation has a heavier geographic concentration of risk than other major insurance companies in Canada, it is less susceptible than other insurance companies to catastrophes from earthquakes and hurricanes because of the location of its insurance business.

To reduce the concentration of risk, the Corporation began expanding into other Canadian provinces in the early 1990s. Through its subsidiary, SCISL, and its subsequent out-of-province acquisitions, at the end of 2001, the percentage of business from Saskatchewan has dropped to 85% and is forecast to be 80% by the end of 2002.

Competition

The insurance industry in Canada is very competitive and continues to underwrite its insurance operations at a loss. As well, prices in the industry can be very cyclical. When rates become profitable, some insurers begin dropping rates to obtain market share and will reduce rates to unprofitable levels. The Corporation's strategy is to maintain its underwriting principles. This may result in some reduction in premiums until prices return to acceptable levels. Competition also exists from insurers with different distribution channels, such as direct writers.

Provision for Unpaid Claims

The Corporation maintains a provision for unpaid claims to cover its liability for future payments on these claims. The provision includes an estimate for future development on reported claims and an estimate for claims that have not yet been reported to the Corporation. These provisions are estimates, and the ultimate payment on these claims may differ from the estimate.

Investment Returns

The majority of the Corporation's profit is derived from the investment portfolio. Returns from capital markets are uncertain and fluctuate from year to year. To mitigate the fluctuations, the Corporation maintains a well-diversified investment portfolio and utilizes the services of three investment managers.

Each investment manager follows the guidelines established in the Investment Policy and Objectives, which provides the manager with a guideline for the quality, quantity and rate of return standards for the portfolio. The Investment Policy and Objectives for each fund manager are reviewed annually by management and approved by the Board of Directors. Fund managers produce quarterly reports on the performance of assets under their management that are reviewed by corporate management and the Finance and Investment Committee of the Board of Directors. As well, the Corporation utilizes the services of an investment consultant to independently review and report on the performance of the investment managers.

Acquisitions

With SCISL's purchase in 2001 of ICPEI and Coachman, the Corporation faces the risk of adverse claim development from claims prior to becoming owner. The Corporation has mitigated the risk on both of these acquisitions. With the ICPEI investment, as part of the purchase agreement, the previous owner is required to refund to SCISL any prior years' development. For the Coachman investment, $2.7 million of the purchase price is held in trust to be applied against prior years' claim development. In addition, the Corporation has purchased adverse claim development reinsurance should the development exceed $3 million.

LOOKING FORWARD

With increased reinsurance rates due to Sept. 11, 2001 combined with lower returns from capital markets, it appears the Canadian insurance market is beginning to move to more adequate pricing. SGI CANADA will be increasing rates in 2002 to reflect the increased reinsurance rates and to address inadequate pricing from prior years. The Corporation anticipates that its combined ratio will continue to decline as it moves towards its target of a combined ratio of less than 100%.

In 2002, SGI CANADA is expecting additional growth from the subsidiaries. SCISL plans on selling its property products in the Ontario market utilizing Coachman's brokers and ICPEI is currently researching expansion plans into other Maritime provinces. SCISL will approach both of these markets using a disciplined underwriting approach rather than aggressively seeking market share.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

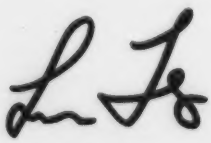
The consolidated financial statements are the responsibility of management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of Saskatchewan Government Insurance (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

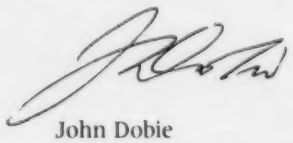
An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The consolidated financial statements have been examined and approved by the Board of Directors. An Audit Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

As appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan, KPMG have been appointed external auditors. Their responsibility is to report to the Members of the Legislative Assembly regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the consolidated financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and his report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.



Larry Fogg
President



John Dobie
Vice President – Finance

February 15, 2002

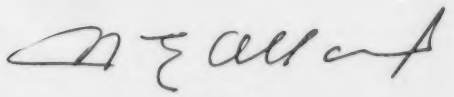
ACTUARY'S REPORT

To the Board of Directors of
Saskatchewan Government Insurance

I have valued the policy liabilities of SGI CANADA for its consolidated statement of financial position at December 31, 2001 and their change in the consolidated statement of operations and retained earnings for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Canadian insurance regulatory practice required that the valuation of some policy liabilities not reflect the time value of money. My valuation complies with that practice.

In my opinion, except as noted in the previous paragraph, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the consolidated financial statements fairly present the results of the valuation.



Jean-Luc E. Allard
Fellow, Canadian Institute of Actuaries

February 15, 2002

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have examined the consolidated statement of financial position of Saskatchewan Government Insurance as at December 31, 2001 and the consolidated statements of operations and retained earnings and statement of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada

February 15, 2002

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31	2001	2000
	(thousands of $)	
Assets		
Cash and treasury bills (note 4)	$ 30,098	$ 16,051
Accounts receivable (note 5)	55,508	38,640
Deferred policy acquisition costs	26,322	22,972
Future income taxes	4,120	—
Unpaid claims recoverable from reinsurers (note 9)	12,680	6,370
Reinsurers' share of unearned premiums	5,544	4,133
Investments (note 6)	258,838	229,448
Net investment in capital lease (note 7)	3,507	3,726
Goodwill	481	—
Capital assets (note 8)	13,381	13,912
	$410,479	$335,252
Liabilities		
Accounts payable and accrued charges	$ 12,072	$ 8,799
Dividend payable	575	1,770
Income taxes payable	311	—
Premium taxes payable	9,075	8,116
Amounts due to reinsurers	3,607	2,466
Provision for unpaid claims (note 9)	172,924	125,470
Unearned reinsurance commissions	1,106	978
Unearned premiums	112,302	91,322
	311,972	238,921
Non-controlling interest	**4,660**	3,502
Province of Saskatchewan's equity		
Equity advances (note 10)	55,000	55,000
Retained earnings	38,847	37,829
	93,847	92,829
	$410,479	$335,252

(see accompanying notes)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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(see accompanying notes)

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

year ended December 31	**2001**	2000
	(thousands of $)	
Premiums written	$192,714	$165,523
Premiums earned (note 11)	**$187,973**	$164,818
Claims incurred (note 11)	127,879	110,999
Commissions (note 11)	34,840	31,883
Premium taxes (note 11)	9,143	7,110
Administrative expenses (note 11)	26,596	24,195
Total claims and expenses	**198,458**	174,187
Underwriting loss	**(10,485)**	(9,369)
Investment earnings (note 12)	19,517	30,569
Net profit, before the following:	9,032	21,200
Future income tax recovery	(1,059)	(289)
Non-controlling interest	(92)	(231)
Net profit	**10,183**	21,720
Retained earnings, beginning of year	37,829	57,657
Dividend	(9,165)	(41,548)
Retained earnings, end of year	**$ 38,847**	$ 37,829

(see accompanying notes)

CONSOLIDATED STATEMENT OF CASH FLOWS

year ended December 31	2001	2000
	(thousands of $)	
Cash provided by (used for) operating activities		
Net profit	$ 10,183	$ 21,720
Non-cash items:		
Amortization	3,313	3,164
Realized gain on disposal of investments and capital assets	(6,616)	(16,204)
Investment write downs	672	997
Loss attributable to non-controlling interest	(92)	(231)
Loss from equity investment	633	710
Change in non-cash operating items:		
Accounts receivable	(317)	(2,146)
Deferred policy acquisition costs	(1,268)	(1,038)
Unpaid claims recoverable from reinsurers	657	2,580
Reinsurers' share of unearned premiums	(665)	(483)
Future income taxes	(1,269)	—
Accounts payable and accrued charges	1,907	941
Premium taxes payable	580	1,410
Future income taxes	500	—
Amounts due to reinsurers	1,414	(525)
Provision for unpaid claims	2,814	3,075
Unearned reinsurance commissions	(127)	(9)
Unearned premiums	4,378	1,189
	16,697	15,150
Cash provided by (used for) investing activities		
Purchases of investments	(419,938)	(232,062)
Proceeds on sale of investments	426,741	258,273
Purchase of Coachman (net of cash deficit from acquisition)	(9,029)	—
Purchase of ICPEI (net of cash equivalents acquired from acquisition)	(1,804)	—
Repayment of capital lease	220	199
Purchases of capital assets	(1,933)	(204)
Proceeds on disposal of capital assets	—	226
	(5,743)	26,432
Cash provided by (used for) financing activities		
Shareholder contributions in ICPEI	261	—
Dividends paid	(10,359)	(39,871)
	(10,098)	(39,871)
Increase in cash and cash equivalents	**856**	1,711
Cash and cash equivalents:		
Balance, beginning of year	13,220	11,509
Balance, end of year	**14,076**	13,220
Plus treasury bills greater than 91 days to maturity from acquisition date	**16,022**	2,831
Cash and treasury bills per statement of financial position	**$ 30,098**	$ 16,051

(see accompanying notes)

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

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Cash and treasury bills per statement of financial position	**$ 30,098**	$ 16,051

(see accompanying notes)

December 31, 2001

1. STATUS OF THE CORPORATION

Saskatchewan Government Insurance (the Corporation), which operates under the trade name of SGI CANADA, was established as a branch of the Public Service by the *Government of Saskatchewan Insurance Act*, 1944, reorganized pursuant to the *Saskatchewan Government Insurance Act*, 1946, and continued under the provisions of the *Saskatchewan Government Insurance Act*, 1980.

The Corporation conducts a property/casualty insurance business in the Province of Saskatchewan under the provisions of its Act and also acts as administrator of the Saskatchewan Auto Fund (the Fund) under the provisions of the *Automobile Accident Insurance Act* (Chapter A-35, Revised Statutes of Saskatchewan, 1978).

As a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), the financial results of the Corporation are included in the consolidated financial statements of CIC. The Corporation is a provincial Crown corporation and as a result is not subject to federal or provincial income taxes. The Corporation's subsidiary, SGI CANADA Insurance Services Ltd. (SCISL), which operates in provinces other than Saskatchewan, is subject to federal and provincial income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Corporation are in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

Consolidation

The consolidated financial statements include the accounts of the Corporation and the consolidated accounts of its 83% (2000 – 53%) owned subsidiary, SCISL. All intercompany accounts and transactions have been eliminated on consolidation.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Investments

Bonds, debentures and mortgages are recorded at amortized cost. Treasury bills, common shares and pooled funds are recorded at cost. Investments are written down when there is a decline in value that is other than temporary. Dividends on common shares are recognized as income on their record dates. Gains and losses on the sale of investments are recognized on the date of settlement.

The Corporation has 9% ownership in › crop hail insurance business and indirectly controls an additional 27% of the business through preferred share ownersı..p in other crop hail insurance companies. The investment is recorded on the equity basis, whereby the carrying value of the investment is adjusted by the Corporation's share of the hail business earnings or losses and reduced by cash received.

Capital lease

Investment earnings related to the direct financing lease are recognized in a manner that produces a constant rate of return on the investment in the lease. The net investment in the lease is composed of net minimum lease payments less unearned finance income.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the assets are placed in service, over their estimated useful lives as follows:

Building	$2\ 1/2\%$
Computer hardware, system costs and other equipment	$20 - 33\ 1/3\%$

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of claims to the year-end date. Included in the estimate are reported claims, claims incurred but not reported and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting except for long-term disability claims. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Premiums

Premiums written are taken into income over the terms of the related policies. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts.

Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively.

Foreign currency translation

Monetary items denominated in foreign currency are translated at the exchange rate in effect at year end. Investments, revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in the current year.

Cash and cash equivalents

Cash and cash equivalents in the cash flow statement consist of cash on hand and treasury bills with a maturity of 91 days or less from the date of acquisition.

Pension costs and obligations

The Corporation maintains a defined benefit pension plan and a defined contribution pension plan, which provide retirement benefits for its employees. For the defined benefit plan, the market value of pension assets is determined based on a five-year moving average of the market value of the investments for the purpose of calculating the expected return on plan assets. Pension obligations are determined by an independent actuary using the projected benefit method prorated on service and management's best estimate assumptions. Past service costs, experience gains and losses and plan amendments are amortized on a straight-line basis over the expected average remaining service lives of the employee groups covered by the plan.

3. ACQUISITIONS

The Corporation acquired 75% of the outstanding shares of the Insurance Company of Prince Edward Island (ICPEI) for cash of $2,770,000 on Jan. 1, 2001 through its subsidiary, SCISL. In December 2001 SCISL purchased $300,000 in preferred shares in ICPEI and subsequent to December 2001, purchased an additional $400,000 in preferred shares. A recovery on prior year claim development was negotiated as part of the purchase agreement whereby the previous owner will refund to SCISL an amount equal to 75% of any unfavourable development on claims in ICPEI prior to 2001. Conversely, SCISL will pay to the previous owner an amount equal to 75% of favourable development on claims prior to 2001. The payment in both instances is subject to a $100,000 deductible and is calculated after tax. This agreement is in effect until Dec. 31, 2003 and will be released by March 31, 2004. In 2001 unfavourable development on prior year claims resulted in a reduction to claims incurred and a related receivable in the amount of $461,000.

On July 1 2001, the Corporation acquired (through its subsidiary, SCISL) 100% of the outstanding shares of Coachman Insurance Company (Coachman) for cash of $8,185,000. Subsequent to the acquisition, SCISL invested another $6,529,000 in contributed surplus into Coachman. Of the original investment of $8,185,000, $2,700,000 is held in a trust account by the Corporation's legal counsel as a holdback for recovery of unfavourable claim development on claims prior to April 30, 2001. This agreement is in effect until Dec. 31, 2002 and will be released by March 31, 2003. In the current year, development on prior year claims has resulted in a reduction to claims incurred and a related receivable in the amount of $231,000. The Corporation has purchased adverse claim development reinsurance for pre-April 30, 2001 claims. The reinsurance has a $3 million deductible and provides coverage up to $8 million.

Both acquisitions are accounted for as purchases with the results of operations included in the consolidated financial statements from the date of acquisition. The statement of cash flows includes the purchases of the subsidiaries net of cash acquired through the acquisition. The difference between the acquisition cost of a subsidiary and the fair value of net identifiable assets acquired represents goodwill. During the year, $27,000 of goodwill has been amortized. The purchase prices have been allocated to the subsidiaries' net identifiable assets as follows:

	(thousands of $)	
Net assets acquired:	ICPEI	Coachman
Cash and short-term investments	$ 547	$ (844)
Other current assets	2,909	24,457
Long-term investments	5,022	38,208
Goodwill	478	30
Current liabilities	(2,305)	(14,623)
Provision for unpaid claims and adjustment expenses	(3,881)	(39,043)
Purchase Price	$ 2,770	$ 8,185

4. CASH AND TREASURY BILLS

Cash and treasury bills, which comprise treasury bills and commercial paper, have an average effective interest rate of 2.6% (2000 – 5.7%) and an average remaining term to maturity of 53 days (2000 – 23 days). The Corporation's investment policy states that securities investments must meet minimum investment standards of R-1, or R-2 high for Canadian grain companies, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the short-term portfolio.

5. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

(thousands of $)

	2001	2000
Due from brokers	$23,229	$20,199
Financed premiums receivable	24,656	12,254
Due from the Fund	—	2,019
Accrued investment income	1,931	1,706
Due from reinsurers	459	110
Other	5,233	2,352
Total accounts receivable	$55,508	$38,640

6. INVESTMENTS

The components of the Corporation's investments are as follows:

(thousands of $)

	2001		2000	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Bonds and debentures	$130,993	$133,611	$114,948	$118,073
Pooled bond fund	41,317	42,273	47,044	48,019
Common shares	51,978	64,476	40,356	54,910
Preferred shares	9,139	9,144	—	—
Pooled equity fund	10,078	8,174	10,810	11,477
Mortgages	13,182	13,640	10,738	10,816
	256,687	271,318	223,896	243,295
Investment in crop hail insurance	2,151	$2,151	2,784	2,784
Deposit on investment in ICPEI	—	—	2,768	2,768
Total investments	$258,838	$273,469	$229,448	$248,847

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

(i) Bonds and debentures:

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of investment assets for corporate bonds and debentures and 20% for bonds and debentures issued by any one province. A minimum of BBB is placed on the investment grade of bonds and debentures that may be purchased.

The carrying value and average effective interest rates are shown below by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The carrying values are essentially the same as the principal value and therefore the average effective rates are not materially different from the coupon rates. Interest is generally receivable on a semi-annual basis.

(thousands of $)

Term to maturity (years)	2001 Carrying Value	2001 Average Effective Rates	2000 Carrying Carrying Value	2000 Average Effective Rates
Government of Canada:				
One or less	$ 439	7.4%	$ —	—
After one through five	30,116	5.1%	29,982	5.9%
After five	39,723	6.0%	34,694	5.7%
Canadian provincial & municipal:				
After one through five	9,631	6.1%	7,390	6.2%
After five	14,815	6.2%	15,382	6.1%
Canadian corporate:				
One or less	350	8.0%	—	—
After one through five	16,008	6.4%	12,295	6.6%
After five	19,911	6.9%	15,205	7.1%
Total bonds & debentures	$130,993		$114,948	

Included in bonds and debentures above are bonds denominated in United States dollars with a carrying value of $0 (2000 – $603,000). Principal and interest is receivable on a semi-annual basis in United States dollars.

(ii) Pooled bond fund:

The Corporation owns units in a pooled bond fund that has no fixed interest rate. Its returns are based on the success of the fund manager and future interest rates.

(iii) Pooled equity fund:

The Corporation owns units in a pooled equity fund that has no fixed interest rate. Its returns are based on the success of the fund manager.

(iv) Common shares:

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. The average effective rate is 2.0% (2000 – 1.8%).

Common shares include $9,989,000 (2000 - $7,835,000) denoted in United States dollars.

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Corporation's common shares. As well, no one holding may represent more than 10% of the voting shares of any corporation.

(v) Preferred shares:

Preferred shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. The average effective rate is 5.7%.

(vi) Mortgages:

The mortgage portfolio consists entirely of Canadian commercial mortgages with average effective interest rates of 7.2% (2000 - 7.1%) with an average maturity of 4.3 years (2000 – 4.2 years). Principal and interest is receivable on a monthly basis.

(vii) Deposit on investment in ICPEI:

Included in investments for 2000 was a $2,768,000 deposit for the purchase of a 75% interest in the Insurance Company of Prince Edward Island (ICPEI).

7. NET INVESTMENT IN CAPITAL LEASE

The Corporation, as lessor, has a 37% interest in a lease agreement with Saskatchewan Property Management Corporation, a related party, for a term of 30 years (expiring March 2011) on property in Prince Albert, Saskatchewan. The lease transfers substantially all of the benefits and risks incident with the ownership of the property to the lessee.

The Corporation's net investment in the capital lease includes the following:

(thousands of $)

	2001	2000
Total minimum lease payments receivable ($583,000 per year)	$ 5,394	$ 5,977
Unearned income	(1,887)	(2,251)
Net investment in capital lease	$ 3,507	$ 3,726

The fair value of the net investment in the capital lease is $4,003,000 (2000 – $4,275,000).

8. CAPITAL ASSETS

The components of the Corporation's investment in capital assets, as well as the related accumulated amortization, are as follows:

(thousands of $)

	2001			2000
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 972	$ —	$ 972	$ 912
Building	18,888	10,569	8,319	8,791
Computer hardware, system costs and other equipment	15,402	11,312	4,090	4,209
Total	$35,262	$21,881	$13,381	$13,912

Amortization for the year is $2,758,000 (2000 – $2,934,000).

9. PROVISION FOR UNPAID CLAIMS

(i) Nature of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a large variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists for reported claims that have not been settled, as all the necessary information may not be available at the balance sheet date.

Factors used to estimate the provision include: the Corporation's experience with similar cases, historical trends involving claim payments, the characteristics of the class of business, claim severity and claim frequency such as those caused by natural disasters, the effect of inflation on future claims, court decisions and economic conditions.

Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as property claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a large number of individuals, which necessarily involves risk that the actual results may differ materially from the estimates.

The Corporation settles some long-term disability claims by purchasing structured settlements from various financial institutions. As part of the settlement, the Corporation provides a financial guarantee to claimants in the event the institutions default on scheduled payments. The net present value of these expected payments as of the balance sheet date total $47,004,000 (2000 – $46,263,000).

Included in the gross provision for unpaid claims is a provision for unpaid reinsurance assumed claims of $12,142,000 (2000 – $15,734,000). The Corporation discontinued its practice of underwriting reinsurance assumed business in 1985, but remains financially responsible for claims run-off on assumed contracts.

Changes in the estimate for the provision for unpaid claims in 2001 and 2000 are as follows:

(ii) Type of unpaid claims:

(thousands of $)

	2001	2000
Net unpaid claims – beginning of year	$119,100	$113,445
Unpaid claims acquired through acquisition	34,026	—
Payments made during the year relating to prior year claims	(49,989)	(39,610)
(Excess) deficiency relating to prior year estimated unpaid claims:		
Direct business	(53)	2,820
Reinsurance assumed business	(2,473)	2
Net unpaid claims for claims of prior years	100,611	76,657
Provision for claims occurring in the current year	59,633	42,443
Net unpaid claims – end of year	$160,244	$119,100

The provision for unpaid claims is summarized by line of business as follows:

(thousands of $)

	2001			2000		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Automobile	$104,817	$ 7,771	$ 97,046	$ 62,458	$ 2,246	$ 60,212
Property	24,254	3,082	21,172	28,978	2,916	26,062
Liability	31,711	1,827	29,884	18,300	1,208	17,092
Assumed	12,142	—	12,142	15,734	—	15,734
Total	$172,924	$ 12,680	$160,244	$125,470	$ 6,370	$119,100

10. EQUITY ADVANCES

The Corporation does not have share capital. However, the Corporation has received equity advances from its parent, CIC, to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

11. UNDERWRITING POLICY AND REINSURANCE CEDED

The Corporation seeks to reduce losses that may arise from catastrophes or other events that cause unfavourable underwriting results by reinsuring certain levels of risk with other insurers. The policy of underwriting and reinsuring contracts of insurance, in the main, limits the liability of the Corporation to a maximum amount on any one loss as follows:

(thousands of $)

	2001
Dwelling and farm property	$ 350
Unlicensed vehicles	500
Commercial property	1,000
Automobile and general liability	750
(subject to filing an annual aggregate of)	750
Property catastrophe	7,500

The retention limits are unchanged from 2000.

The Corporation evaluates and monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency. The following table sets out the amount by which reinsurance ceded has reduced the premiums earned, claims incurred, commissions, premium taxes and administrative expenses:

(thousands of $)

	2001	2000
Premiums earned	$10,557	$10,994
Claims incurred	4,309	2,230
Commissions and premium taxes	294	1,409
Administrative expenses	762	788

12. INVESTMENT EARNINGS

The components of investment earnings are as follows:

(thousands of $)

	2001	2000
Interest and dividends	$13,842	$15,562
Realized gain on sale of investments	6,616	16,329
Income from capital lease	364	385
Loss from crop hail insurance investment	(633)	(710)
Investment write down	(672)	(997)
Total investment earnings	$19,517	$30,569

13. PENSION PLANS

The Corporation has a defined benefit pension plan for certain of its employees that has been closed to new membership since 1980. Current service costs of this plan are charged to earnings on the basis of actuarial valuations, the most recent valuation being as of Dec. 31, 1999.

The actuarial valuation includes a provision for uncommitted and ad hoc benefit increases, and is measured using management's best estimates based on assumptions that reflect the most probable set of economic circumstances and planned courses of action. The estimate, therefore, involves risks that the actual amount may differ materially from the estimate. Results from the latest valuation as at Dec. 31, 1999, projected to Dec. 31, 2001, and the major assumptions used in the valuation, are as follows:

Economic assumptions:	
Discount rate	6.75%
Expected return on plan assets	6.75%
Inflation rate	3.00%
Expected salary increase	4.00%
Post-retirement index	50% of CPI

(thousands of $)

Plan valuations:	2001	2000
Fair value of plan assets	$53,095	$54,767
Present value of accrued pension benefits	48,309	50,664
Plan surplus	$ 4,786	$ 4,103

(thousands of $)

Financial information:	2001	2000
Accrued pension liability–SGI	$ 958	$1,038
Accrued pension liability–Saskatchewan Auto Fund	2,445	2,202
Pension expense	163	184
Employer contributions	—	—
Employee contributions	110	103
Benefits paid to retirees	3,006	2,894

The Corporation also has employees who are members of the Capital Pension Plan, which is a defined contribution pension plan. The Corporation's financial obligation is limited to matching employee contributions of 5.5% to the plan. The 2001 pension expense and employer contributions for the Capital Pension Plan are $3,307,000 (2000 - $3,106,000).

14. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions and amounts outstanding at year end are as follows:

	(thousands of $)	
Category	2001	2000
Deferred policy acquisition costs	$4,492	$4,287
Investments	2,669	1,964
Accounts payable and accrued charges	138	245
Dividends payable	575	1,770
Premium taxes payable	8,680	7,974
Provision for unpaid claims	1,141	767
Unearned premiums	1,024	961
Premiums written	2,425	2,328
Premiums earned	2,396	2,356
Claims incurred	1,584	964
Premium taxes	8,475	7,060
Administrative expenses	1,776	1,688
Investment earnings	146	62

The Corporation acts as administrator of the Fund. Administrative and claims adjustment expenses incurred by the Corporation are allocated to the Corporation and the Fund directly or on the basis of specific distributions. Amounts incurred by the Corporation and charged to the Fund were $71,271,000 (2000 – $68,155,000) and accounts payable are $3,059,000 (2000 – $2,019,000).

The Corporation's subsidiary, SCISL, owns 75% of ICPEI, which has direct premiums which are written by a company that is affiliated with a minority shareholder of ICPEI. The receivable at the end of the year is $676,000 (2000 – $1,098,000). The minority shareholder is a member of ICPEI's senior management. ICPEI incurred $301,000 (2000 – $274,000) in claims adjusting fees from a company related to the minority shareholder. The policies written are in the normal course of business. A company related to the minority shareholder provides premium financing for policyholders.

Other related party transactions are described separately in the notes.

15. FAIR VALUES

The following method and assumptions were used to estimate the fair value of each class of financial instrument:

(i) For the following financial instruments the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments:

(a) cash and treasury bills
(b) accounts receivable
(c) accounts payable and accrued charges
(d) dividends payable
(e) premium taxes payable
(f) amounts due to reinsurers

(ii) For the following financial instruments the fair values are considered to approximate quoted market values on recognized stock exchanges, based on the latest bid prices:

(a) bonds and debentures
(b) pooled bond fund
(c) common shares
(d) preferred shares
(e) pooled equity fund

(iii) Mortgages

The fair value is calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage using current interest rates.

(iv) Net investment in capital lease

The fair value is calculated by discounting scheduled cash flows through to the estimated expiration of the lease using current interest rates.

(v) Investment in the hail business

The fair value of the investment in the hail business is considered to approximate book value.

(vi) Provision for unpaid claims and unpaid claims recoverable from reinsurers

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has been omitted because it is not practicable to determine fair value with sufficient reliability (note 9).